



Arizona Department of Education

The Audit Unit

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Average Daily Membership Audit Report Pinnacle Education-Casa Grande, Inc. Fiscal Years 2011, 2012 and 2013

Report Number—14-5

April 3, 2014

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John Huppenthal
Superintendent of
Public Instruction

April 3, 2014

Dr. Michael Matwick, CEO
Pinnacle Education
2224 W. Southern Avenue, Ste. 1
Tempe, AZ 85282

Dear Dr. Matwick,

The Arizona Department of Education Audit Unit has conducted an audit of the Pinnacle Education-Casa Grande, Inc. Average Daily Membership for Fiscal Years 2011, 2012 and 2013. The purpose of the audit was to address whether the School properly reported student enrollment and attendance and to determine if it received the correct amount of Basic State Aid.

Auditors determined that the School was overfunded due to insufficient instructional hours provided by the School to its students, incorrectly reported calendars and data enrollment reporting errors. Additionally, auditors completed a validation of School-submitted data from FY2011 to correct absences. As a result of these findings, the School was overfunded \$20,216.63 in Basic State Aid for all three fiscal years. The Notice of Audit Findings and Required Reimbursement issued concurrently with this report becomes final thirty (30) days after issuance, unless the School files an appeal.

We appreciate the cooperation and assistance provided by the School's administration during the course of the audit.

Sincerely,

Lisa Eddy,
Chief Auditor

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INTRODUCTION AND BACKGROUND

The Arizona Department of Education (ADE) Audit Unit has conducted an Average Daily Membership (ADM) audit of Pinnacle Education-Casa Grande, Inc. (School) pursuant to Arizona Revised Statutes (A.R.S.) § 15-239. This audit focused on whether the School properly reported enrollment and attendance data to ADE and received the correct amount of Basic State Aid for FY2011 through FY2013.

Average Daily Membership audits of district and charter holder funding—Pursuant to A.R.S. § 15-239, ADM audits help ensure the appropriate distribution of Basic State Aid provided annually to school districts and charter schools. School districts and charter schools receive Basic State Aid based on several factors related to student enrollment and attendance. To receive funding, school districts and charter schools report enrollment and attendance data to ADE. ADE processes that data, determines payment amounts according to the relevant statutory funding formulas and distributes payments to schools up to twelve times each year.

The ADM audit process determines whether payments were correct or if an adjustment is needed. The audit process compares the school district or charter school's information reported to ADE's student data system, the Student Accountability Information System (SAIS), to information found on the original records kept at the school. If auditors find that the school district or charter school's reported information does not match the original documentation, the audit will calculate and report the funding adjustment needed to the school district's or charter school's Basic State Aid. These funding adjustments can be positive or negative, depending upon the audit findings. The audit findings are written and compiled into a report that is then issued to the audited entity.

Superintendent's legal notice links the audit and appeals processes—In addition to the report, the audited entity also receives The Notice of Audit Findings and Required Reimbursement (Notice) that details the audit findings and determination of the Superintendent of Public Instruction regarding adjustments to be made to the school district or charter school pursuant to A.R.S. § 15-915. As described in the next paragraph, the audited entity may appeal the Superintendent's decision in the Notice.

Opportunity to appeal the audit—A.R.S. § 41-1092.03 provides the audited school district or charter school that disagrees with the Superintendent's decision in the Notice with the opportunity to file a formal appeal within thirty (30) days after the report was issued. If an appeal is filed, the school district or charter school and ADE may reach agreement in an informal settlement conference. If an agreement is not reached at the informal settlement conference, the appeal will be adjudicated by the Office of Administrative Hearings.

Funding adjustment process and timeframes—When the Notice is finally settled or adjudicated, if ADE has determined that a school district or charter school received an incorrect amount of Basic State Aid, A.R.S. § 15-915 directs that corrections to schools' funding be made in the current budget year. In case of hardship, schools may request that the Superintendent of Public Instruction allow a correction to be made partly in the current budget year and partly in the following budget year.

School financial and other information—The School, located in Casa Grande, Arizona, maintained one campus during the fiscal years audited for students in grades 9 through 12. In FY2013, the School enrolled a total of 85 students. Table 1 presents the School's unaudited student, staffing and financial information for FY2011, FY2012 and FY2013.

Table 1

**Pinnacle Education-Casa Grande, Inc.
Total Students, Staffing, Revenues and Expenditures
FY2011, FY2012 and FY2013
(Unaudited)**

	FY2011	FY2012	FY2013
Students Enrolled	122	129	85
Number of Teachers	6	6	4
Revenue			
Local	\$ 979	\$ 237	\$ 590
Intermediate	\$ 0	\$ 0	\$ 0
State	\$906,385	\$778,494	\$569,330
Federal	\$ 0	\$ 0	\$ 0
Total Revenues	\$907,364	\$778,731	\$569,920
Total Expenditures	\$942,222	\$590,757	\$474,116

Source: Annual Report of the Arizona Superintendent of Public Instruction for FY2011, FY2012 and FY2013.

SCOPE AND METHODOLOGY

The audit focused on whether the School accurately reported its data to ADE and received the correct amount of Basic State Aid in accordance with statutes, the Uniform System of Financial Records (USFR) and its own policies and procedures for FY2011, FY2012 and FY2013.

To conduct this audit, auditors used a variety of methods, including examining School and SAIS records for enrollment and attendance. Auditors also reviewed state statutes and School policies and procedures, and interviewed School management and staff.

Additionally, auditors performed specific tasks for the following finding areas:

- **Instructional Hours**—To determine whether the School met the statutory instructional hours requirement for each grade, auditors obtained academic calendars and bell schedules for FY2011, FY2012 and FY2013. Auditors calculated the instructional hours for all grades to determine if sufficient instructional hours were provided. In addition, auditors interviewed School personnel to obtain information regarding any breaks taken in the schedules for the years audited. Auditors then compared the calendars and bell schedules to the requirements mandated by statute and ADE guidelines.
- **Calendar Reporting Errors**—To determine whether the School correctly reported student calendars, auditors reviewed the calendars offered to students during the three fiscal years audited. When students were reported with an incorrect calendar, auditors recalculated the ADM for each student based on the actual calendar the students attended.
- **Enrollment Data Errors**—To determine whether the School reported the correct enrollment data to ADE, auditors reviewed 51 student profiles. The first and last days of attendance were then compared to the enrollment and withdrawal dates that were reported to SAIS. When discrepancies were identified, auditors recalculated the ADM for each student based on the actual enrollment period.

The Audit Unit expresses its appreciation to the School's administration and staff members for their cooperation and assistance during the course of the audit.

FINDING 1: ALL STUDENTS WERE NOT PROVIDED SUFFICIENT INSTRUCTIONAL HOURS

The School failed to provide the statutorily-required minimum number of instructional hours for all students in FY2011, FY2012 and FY2013. Auditors determined that the School incorrectly counted a non-instructional period of time as part of its instructional program. As a result, the School was overpaid \$136,585.85 in Basic State Aid. In accordance with A.R.S. § 15-915, ADE must recover these monies from the School.

The School Failed to Provide All Students With Sufficient Instructional Hours

Although all schools are required by statute to provide a minimum number of instructional hours to students, the School failed to meet this requirement for all students in FY2011, FY2012 and FY2013, resulting in an ADM

overstatement of 19.872. Specifically, A.R.S. § 15-901 required public schools to provide at least 720 instructional hours in FY2011, FY2012 and FY2013 for all high school students. However, for all three fiscal years audited-across all academic tracks-the School only provided between 92.64% and 97.64% of the required hours. As a result, the School's ADM was overstated by 6.578 in FY2011, 7.590 in FY2012 and 5.704 in FY2013. Table 2 shows the ADM adjustments resulting from insufficient instructional hours.

Table 2

Pinnacle Education-Casa Grande, Inc.
Instructional Hours Required, Instructional Hours Provided,
Percentage of Requirement and ADM Adjustment for All Grades
FY2011, FY2012 and FY2013

Fiscal Year	Instructional Hours Required	Instructional Hours Provided	Percentage of Requirement	ADM Adjustment
FY2011 Track 1	720.00	674.50	93.68%	4.583
FY2011 Track 2	720.00	667.00	92.64%	1.498
FY2011 4-Day	720.00	703.00	97.64%	<u>0.497</u>
Total				<u>6.578</u>
FY2012 Track 1	720.00	669.00	92.92%	1.331
FY2012 Track 2	720.00	667.00	92.64%	4.637
FY2012 Track 3	720.00	669.00	92.92%	1.236
FY2012 Track 4	720.00	684.00	95.00%	<u>0.386</u>
Total				<u>7.590</u>
FY2013 Track 1	720.00	667.00	92.64%	5.704
FY2013 Track 2	720.00	698.25	96.98%	<u>0.000</u>
Total				<u>5.704</u>

Source: Auditor analysis of the School's bell schedules, GE-18, GE-19 and A.R.S. § 15-901.

The School Inappropriately Counted Break Time and Did Not Account for Half Days

The School failed to provide sufficient instructional hours for all its students in FY2011 through FY2013 because it improperly included break time as instructional time and did not properly account for half days for some of its educational program tracks.

- The School inappropriately counted the 15-minute break time occurring in each session as instructional time. According to School personnel, all blocks of instruction had a scheduled 15-minute period of time where students could have time away from their work for personal use if they chose. Students were not required to participate in a scheduled academic program during this 15-minute period of time. ADE has determined, as fully described in ADE External Guidelines and Procedures GE-18 (GE-18), "*Instructional hours do not include periods of the day in which an instructional program or course of study is not being offered*". This 15-minute break time should not have been considered instructional time by the School.
- Additionally, the School offered half days of instruction for four days each year for staff development. While School management accounted for this by adding additional days of instruction to track 1 in FY2011, this accounting did not occur on any of the other tracks in FY2011, or for any of the tracks in FY2012 or FY2013.

The School must comply with the requirements of GE-18 and A.R.S. § 15-901 to provide all students with at least the statutorily-required number of instructional hours.

The School Was Overfunded \$136,585.85 in Basic State Aid

As a result of providing insufficient instructional hours for all students in FY2011, FY2012 and FY2013, the School's ADM was overstated¹, resulting in the School being overfunded \$44,913.89 in FY2011, \$51,615.06 in FY2012 and \$40,056.90 in FY2013 in Basic State Aid. As shown in Table 3 (see page 6), the School's insufficient instructional hours resulted in its ADM being overstated by a total of 19.872. Table 3 shows the ADM and funding adjustments required for the School for FY2011 through FY2013. According to A.R.S. § 15-915, ADE needs to recoup \$136,585.85 in overpaid Basic State Aid from the School for insufficient instructional hours in FY2011 through FY2013.

¹ A.R.S. §15-239(E) provides directions for determining the ADM adjustment based on insufficient instructional hours. According to the statute, the ADM adjustment "may be made proportionately according to the percentage by which the instructional time provided does not meet the required number of instructional hours prescribed for that grade level."

Recommendations:

1. ADE must recoup \$136,585.85 in overpaid Basic State Aid from the School for not providing sufficient instructional hours in FY2011, FY2012 and FY2013.
2. The School must ensure that it provides all students with at least the statutorily-required minimum number of instructional hours.

Table 3

**Pinnacle Education-Casa Grande, Inc.
ADM Overstatement and Funding Adjustment Due to
Insufficient Instructional Hours for All Grades
FY2011, FY2012 and FY2013**

	Reported ADM	Percentage Provided	Audited ADM	ADM Overstated	Funding Adjustment
FY2011 Track 1	73.430	93.68%	68.847	4.583	\$ 31,290.18
FY2011 Track 2	21.518	92.64%	20.020	1.498	\$ 10,229.97
FY2011 4-Day	<u>21.050</u>	97.64%	<u>20.553</u>	<u>0.497</u>	<u>\$ 3,393.74</u>
Total FY2011	<u>115.998</u>	-	<u>109.420</u>	<u>6.578</u>	<u>\$ 44,913.89</u>
FY2012 Track 1	20.120	92.92%	18.789	1.331	\$ 9,051.70
FY2012 Track 2	67.630	92.64%	62.993	4.637	\$ 31,537.07
FY2012 Track 3	18.679	92.92%	17.443	1.236	\$ 8,403.08
FY2012 Track 4	<u>8.100</u>	95.00%	<u>7.714</u>	<u>0.386</u>	<u>\$ 2,623.21</u>
Total FY2012	<u>114.529</u>	-	<u>106.939</u>	<u>7.590</u>	<u>\$ 51,615.06</u>
FY2013 Track 1	83.188	92.64%	77.484	5.704	\$ 40,056.90
FY2013 Track 2	0.000	96.98%	0.000	0.000	\$ 0.00
Total FY2013	<u>83.188</u>	-	<u>77.484</u>	<u>5.704</u>	<u>\$ 40,056.90</u>
Total	<u>313.715</u>	-	<u>293.843</u>	<u>19.872</u>	<u>\$136,585.85</u>

Source: Auditor analysis of School and SAIS records for FY2011, FY2012 and FY2013.

FINDING 2: THE SCHOOL INCORRECTLY REPORTED CALENDARS FOR 42 STUDENTS IN FY2011 RESULTING IN OVERFUNDING OF \$15,872.74

The School improperly reported 42 students as enrolled in a 5 day calendar when the students were actually enrolled in a 4 day per week calendar. As a result, the School overreported the enrollment information for these 42 students, resulting in the School's ADM being overstated by a total of 2.325 for FY2011. This occurred because the School did not submit a separate calendar reflecting the 4 day enrollment as required by statute and ADE guidelines. The overreported enrollment resulted in the School being overfunded by \$15,872.74 in Basic State Aid. According to A.R.S. § 15-915, ADE must recover these monies from the School.

The School Incorrectly Reported The Calendar for 42 Students

For FY2011, the School failed to submit a separate 4 day calendar for 42 students enrolled in the School's four day a week program. As a result, those students were mistakenly reported as enrolled in a five day a week program. According to ADE External Guidelines and Procedures EX-18 (EX-18), the School must establish a calendar of school days for the year, and that calendar must be approved and activated in SAIS before student information can be submitted to ADE. These calendars are then used to determine the first 100 days of the school year which ADM is based on. As can be seen in Table 4, the School did establish and submit two calendars correctly in FY2011, both of which offered 5 days per week. However, the School also offered a third calendar to students allowing students to attend 4 days per week which the School did not submit to SAIS.

Table 4

**Pinnacle Education-Casa Grande, Inc.
Calendars Offered in
FY2011**

Calendar	Start Date	100th Day	End Date	School Days Per Week	Submitted to SAIS
Track 1	8/5/10	1/21/11	5/27/11	5	Yes
Track 2	9/9/10	2/25/11	6/30/11	5	Yes
4 Day	8/5/10	2/24/11	5/27/11	4	No

Source: Auditor analysis of School and SAIS records.

Because the School did not submit the 4 day per week calendar to SAIS, this calendar was not an available track to use when submitting student data. Therefore, students that were enrolled in this calendar could not be reported to SAIS correctly, and were instead reported as having been enrolled in

one of the two calendars with five school days each week which were reported to SAIS. As a result, 42 of the School's students were reported as being enrolled in an incorrect calendar during FY2011.

The School must ensure it complies with statute and ADE guidelines to properly report all calendars to SAIS, and ensure that students are reported as being enrolled in the correct calendar.

The School's ADM Was Overstated By 2.325 for the Incorrectly Reported Calendar

As a result of the School improperly reporting the calendar for 42 students in FY2011, the School's ADM was overstated by a total of 2.325, as shown in Table 5. A school's funding is based on student enrollment during the first 100 days of the calendar the student is enrolled in. However, for 42 students the School reported the incorrect calendar and so the days included in the ADM calculation for these students were overstated. Recalculating the ADM for these students using the four day calendar they were actually enrolled in showed that the ADM for these students was overstated by a total of 2.325.

Table 5

Pinnacle Education-Casa Grande, Inc. Number of Students with Incorrect Calendar and ADM Adjustment FY2011

	FY2011
Number of Students with Incorrect ADM	42
Total ADM Adjustment	<u>2.325</u>

Source: Auditor analysis of School and SAIS records.

The School Was Overpaid \$15,872.74 in Basic State Aid

As shown in Table 6, the School was overpaid \$15,872.74 in Basic State Aid because it improperly reported the calendars and student enrollment for 42 students. According to A.R.S. § 15-915, ADE must recoup \$15,872.74 in overpaid Basic State Aid from the School.

Table 6

Pinnacle Education-Casa Grande, Inc. ADM Adjustment and Funding Adjustment FY2011

	FY2011
ADM Adjustment	2.325
Funding Adjustment	\$15,872.74

Source: Auditor analysis of School and SAIS records for FY2011.

Recommendations:

1. ADE must recoup \$15,872.74 in overpaid Basic State Aid from the School for incorrectly reported calendars for 42 students in FY2011.
2. The School must ensure that it properly establishes and submits calendars pursuant to statute and ADE guidelines.

FINDING 3: THE SCHOOL DID NOT ACCURATELY REPORT SOME STUDENT DATA RESULTING IN AN UNDERPAYMENT OF \$103,184.42

The School did not accurately report to ADE some other student enrollment data for FY2011, FY2012 and FY2013. Specifically, auditors found that the School misreported enrollment and withdrawal dates for 12 students, failed to properly report daily absences for one student, reported five students who did not attend the School and failed to report 31 students who did attend the School. As a result, the School's ADM was understated by 15.10 for the three fiscal years audited. Due to this inaccurate enrollment data reported to ADE, the School received a net underpayment of \$103,184.42 in Basic State Aid for the three fiscal years audited, which must be repaid to the School.

The School Inaccurately Reported Student Enrollment Data

The School inaccurately reported 49 students' enrollment data to ADE. As a result, the School understated its ADM in all three fiscal years by 15.10.

ADE External Guidelines and Procedures GE-17² (GE-17) states that, with the exception of pre-enrolled students, the enrollment date for a student is the first day of actual attendance. Additionally, according to A.R.S. § 15-901, the withdrawal date for students is the last day of actual attendance. However, the School did not always adhere to these requirements. Specifically:

- 31 students were not reported to SAIS; however, the attendance documentation listed the student as being enrolled and attending, which resulted in the School's ADM being understated by 12.31.
- 12 students had either an incorrect entry date or withdrawal date that was reported to SAIS, which resulted in the School's ADM being understated by 3.98.
- 1 student had an incorrect number of absences reported to SAIS, which resulted in the School's ADM being understated by 0.20.
- 5 students did not have any attendance documentation that indicated they had attended the School, which resulted in the School's ADM being overstated by 1.39.

² ADE External Guidelines and Procedures GE-17 states: "For the purposes of determining Average Daily Membership (ADM) for a given school year at a given public school pursuant to ARS § 15-901 (A)(2), the first day of membership for continuing or pre-enrolled students, shall be defined as either the first day a student physically attends school or the first day that classroom instruction is offered, provided that such students physically attend school within the first ten school days. For all other students, the first day of membership shall be defined as the first day a student physically attends school."

As shown in Table 7, enrollment data errors resulted in a net ADM understatement of 15.10 for FY2011, FY2012 and FY2013.

Table 7

**Pinnacle Education-Casa Grande, Inc.
ADM Adjustments Due to Enrollment Data Errors
FY2011, FY2012 and FY2013**

	2011	2012	2013	Total
Attended the School, but was not in SAIS	(11.31)	0	(1.00)	(12.31)
Incorrect entry or withdrawal date	(3.98)	0	0	(3.98)
Incorrect amount of absences	(0.20)	0	0	(0.20)
Did not attend the School, but was in SAIS	<u>0.79</u>	<u>0.03</u>	<u>0.57</u>	<u>1.39</u>
Total	<u>(14.70)</u>	<u>0.03</u>	<u>(0.43)</u>	<u>(15.10)</u>

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

The School Must Reconcile Its Data With SAIS

The School can avoid errors in the future by ensuring it correctly reconciles its data to the data contained in SAIS. If the School had properly reconciled its data to SAIS, these enrollment errors could likely have been identified, and the School would not have been underfunded because of these errors. The School must review the reports produced by SAIS and reconcile them to the School's SMS data to identify any discrepancies that would affect funding.

The School Was Underpaid \$103,184.42 for FY2011, FY2012 and FY2013

Auditors determined that the School did not receive the correct amount of Basic State Aid due to the inaccurate enrollment data reported to ADE for FY2011, FY2012 and FY2013. The data errors reported by the School resulted in its ADM being understated by 15.10 for the three fiscal years audited. This resulted in the Basic State Aid being underfunded by \$103,184.42, which ADE must repay. Table 8 (see page 12) shows the ADM and funding adjustments required for the School for FY2011, FY2012 and FY2013.

Table 8

**Pinnacle Education-Casa Grande, Inc.
ADM and Funding Adjustments Due to
Enrollment Data Errors
FY2011, FY2012 and FY2013**

Fiscal Year	ADM	Funding
2011	(14.70)	\$(100,330.56)
2012	0.03	\$ 166.04
2013	(0.43)	\$(3,019.90)
Total	(15.10)	\$(103,184.42)

Source: Auditor analysis of School records and SAIS data for FY2011, FY2012 and FY2013.

Recommendations:

1. ADE must repay the School \$103,184.42 in underfunding due to incorrectly reported enrollment and withdrawal dates.
2. The School must reconcile its data each year to ensure it complies with A.R.S. § 15-901 and GE-17.

OTHER PERTINENT INFORMATION: AUDIT UNIT

VALIDATION OF SCHOOL-SUBMITTED DATA CHANGE REQUEST

During the course of the audit, auditors also tested and verified the accuracy of student data corrections submitted by the School to ADE pursuant to A.R.S. § 15-915, which allows LEA's to submit corrections to student data for up to three previous fiscal years.³

The School submitted a formal request to ADE in June, 2011 to change its FY2011 data to correct the number of student absences that were funded in SAIS. Once a request is received by ADE, ADE processes the data through SAIS to calculate a revised ADM count for the School. However, a review of the SAIS-processed data found that SAIS had mistakenly added additional absences to the absence totals submitted by the School. Because SAIS could not accurately process the data and calculate an accurate revised ADM, auditors manually recalculated the ADM. This revised ADM count will be included in the audit-identified ADM adjustments total, thus ensuring that the School is accurately funded for FY2011 based on the corrected data.

Auditors reviewed information provided by the School and verified that 392.25 absences were not counted or funded appropriately. Specifically, auditors reviewed student files and SMS reports to determine that the absences were lower than what was funded. As shown in Table 9, the 84 students with incorrect absences that were funded resulted in the ADM being understated by 4.256. This resulted in a total underfunding of the School by \$29,057.54, which ADE must repay to the School.

Table 9

**Pinnacle Education-Casa Grande, Inc.
ADM and Funding Adjustments Due to
School-Submitted A.R.S. § 15-915 Changes
FY2011**

	Number of Students	ADM Adjustment	Funding Adjustment
FY2011	84	(4.256)	\$(29,057.54)

Source: Auditor analysis of School records and SAIS data for FY2011.

³ A.R.S. § 15-915 allows schools to make a downward correction to its ADM for the previous three years, and an upward correction to its ADM for the previous year.

ADM AND FUNDING ADJUSTMENTS

This audit identified an overall funding reduction of \$49,274.17 for the three fiscal years audited:

- \$136,585.85 for not providing sufficient instructional hours;
- \$15,872.74 for improperly reporting student calendars; and
- \$(103,184.42) for inaccurate enrollment data reported to ADE.

In addition, the audit verified a funding increase of \$29,057.54 for correcting the School's absences as determined by assuring the accuracy of the School's FY2011 data re-submission request.

Table 10 lists the ADM adjustments and the associated Basic State Aid adjustments for the School for FY2011, FY2012 and FY2013.

Table 10

**Pinnacle Education-Casa Grande, Inc.
ADM and Funding Adjustments Required for
FY2011, FY2012 and FY2013**

	FY2011		FY2012		FY2013		Total Adjustment
	ADM	Basic State Aid	ADM	Basic State Aid	ADM	Basic State Aid	
Insufficient Instructional Hours	6.58	\$ 44,913.89	7.59	\$51,615.06	5.70	\$40,056.90	\$ 136,585.85
Calendar Reporting Errors	2.32	15,872.74	0.00	0.00	0.00	0.00	15,872.74
Enrollment Data Errors	(14.70)	(100,330.56)	0.03	166.04	(0.43)	(3,019.90)	(103,184.42)
Total Audit	(5.80)	\$(39,543.93)	7.62	\$51,781.10	5.27	\$37,037.00	\$49,274.17
School Data Submission Validation							
Data Submission	(4.26)	(29,057.54)	0.00	0.00	0.00	0.00	(29,057.54)
Net Total	(10.06)	\$(68,601.47)	7.62	\$51,781.10	5.27	\$37,037.00	\$20,216.63

Source: Auditor analysis of SAIS and School student and financial data for FY2011, FY2012 and FY2013.